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THE AGRICULTURAL BANK FOR THE PHILIPPINE ISLANDS

BY JEREMIAH W. JENKS, PH.D., LL.D.,

Professor of Political Economy and Politics, Cornell University, Ithaca, N. Y.

It has been said that I am to speak on the agricultural bank in the Philippines. I think the title would have been more accurately stated if it had been given as the agricultural loan bank, because it is not the intention, as you will see in a moment or two, to make the agricultural loan the basis in any way of the currency system in the islands, as was the plan in the early days in New England. The legislation in regard to this bank is simply to provide an institution which shall furnish loans to the farmers, principally the small farmers, on the security of their lands, crops, and possibly, at times, of their farm animals.

It is worth while to note briefly some of the reasons why it is desirable to establish the agricultural bank at this time. In the first place the Filipinos want the bank. We have thought it desirable to do what we could to satisfy first the real needs, and beyond that the rational wants of the Filipinos. There can be no doubt that there is no other single favor which the Filipinos, in all parts of the island, have so constantly asked for from the Philippine Commission and from our government here, as the establishment of an agricultural bank. In a good many cases, I think, the native Filipinos who have asked for the bank have felt the want rather than the need, because they did not exactly understand what they were asking for. I do not doubt that a number of the more ignorant ones have felt that if the government would establish an agricultural bank, they might go to it as an unlimited source of supply for money whenever desired, and some of them have thought that it would not be necessary to make any particular sacrifices to pay that money back again. Nevertheless, when the government makes the provision for that bank, it does so with the full intention that the person who borrows the money will pay it back with reasonable interest.

A second reason is that the business conditions in the islands are

not good, although they promise to be better. As we know, any country which has been devastated by war must suffer from that devastation for a number of years, and while the immediate effects of war have been largely removed, some remain. The conditions, while better than they were, are in many places worse than under the Spanish occupation, but that condition of affairs is rapidly passing away. Again, as you know, there has been in the islands for the past few years, and the danger is not yet past, a plague from which perhaps nine-tenths of the cattle and horses, which are the only draft-animals in the islands, have died. When a farmer wishes to till his land, if his animals are gone, he is in a serious plight; so it is advisable that some means be furnished the Filipino by which he can buy cattle. The United States did appropriate \$3,000,000 which could be used for meeting the more pressing needs of the islanders along that line. More is needed, to be secured in the usual way by individual credit. Again, there have been plagues of locusts; there have been tornadoes; and for various other reasons the agricultural conditions have not been good of late years, so that if any means can be found whereby the native Filipinos, who are these land-owners, can secure small loans to meet the pressing needs of seed, tools and draft animals, it will be likely to improve conditions very decidedly.

Again, as Governor Ide has already indicated, there are no means at the present time to provide these things. Of the four larger banks two are forbidden to loan money on land. The other two could make such loans, but being occupied in the exchange business, they are not likely to find it profitable enough to organize branches for making petty loans to the agriculturists here and there throughout the islands. It would not pay them, and they will not do it. An investigation made into that question showed that the present agricultural loans aggregated only some \$400,000 and most of those were made to the larger landowners, so it is necessary to provide some means, such as an agricultural bank. The large banks do not care to make loans to small landowners. We do not perhaps appreciate how small the land holdings are, because they are not to be compared with our land holdings at all. It should be borne in mind that the Filipino farmers to a considerable extent own their land. Their system is not a tenant system. More than 80 per cent of the

farms are worked by their owners; but when it comes to speaking of the size of the farms, only 1.3 per cent had as much as 75 acres, so there are almost no large farms. Less than 5 per cent have 25 acres. More than 88 per cent—nearly 90 per cent—have less than $12\frac{1}{4}$ acres, and as high as 21.7 per cent of the entire number of farms in the island are only 194 feet square. I am not very good at guessing at distances, but I should say that more than 20 per cent of the farms are not more than four times the size of this room. That is not a very large farm; in consequence, when it comes to providing the owners of those farms with loans, it takes a special banking organization to look after the special needs of each individual landholder, however small that landholder may be.

Another pressing need is a lower rate of interest. Where people want loans very badly, and are willing to pay high rates for them, usually somebody will be found to give them credit. The Chinese merchants and other people, who have some surplus capital that they can loan from time to time, and who are willing to take what they can get for it, now make loans. In this way the Filipino agriculturists have been able to borrow; but they have paid from 10 per cent to 100 per cent interest. The investigation made about two years ago through the provincial treasurer of the islands showed that the usual rate of interest, if you can speak of such a thing as a usual rate, was about 2 per cent a month. That is, the people were paying, in round numbers, 25 per cent interest on the money they borrowed. This makes it clear that the government should be able to furnish small cultivators with money, so that they can pay off the usurers and in that way succeed in securing money at reasonable rates.

There is not very much of the experience of other countries that is similar to this situation. But we were fortunate in finding in Egypt a system of agricultural loans in a country where the conditions are in many ways quite similar to those in the Philippine Islands, where the system has been very successful. Of course there are agricultural banks in many countries, but in almost all cases these banks are on a co-operative system, among people who are themselves intelligent enough to manage their own banks, like the building and loan associations, or else they are in countries where capital is not so scarce as it has been in the Philippine

Islands, so that the experience of most countries would not serve as models for a system in the Philippine Islands. On the other hand, in Egypt, a country which has been very poor, a country greatly in debt, the inhabitants of which have the reputation of being thriftless, the conditions are such that it may stand as a possible model for us. A word or two, then, in regard to the conditions in Egypt, and the nature of the agricultural bank there. The system of agricultural loans in Egypt is not very old. It has been running only since the middle 90's, but with conditions as they are it has been apparent to many people that Egypt might serve as a model. In consequence Dr. Kemmerer, the adviser of the Philippine government on monetary affairs, was requested to look into the system, visit Egypt and make a detailed report. It is largely as a result of his report that we have been able to work out a system which will probably be successful.

In 1894, Lord Cromer, the English consul general and diplomatic agent of England, who has been, of course, the real ruler of the country, tried to get capitalists interested in agricultural loans. He failed in that. Then the government started its plan in a tentative way, first loaning seed, then small sums of money, where it could be carefully watched, and thus the system gradually spread. It was found that the Egyptians, who had been said to be so thriftless, careless and improvident, were willing to pay back their loans, so the system grew rapidly. In the year 1898 there was something like \$37,000 loaned. The next year the plan had been so successful that about \$150,000 was loaned, and in 1900, \$700,000. After this experiment, the government persuaded the National Bank of Egypt to take over the business of loaning, and later, in 1902, the Agricultural Bank of Egypt was founded, with a capital of \$12,500,000, which was rapidly increased to \$35,000,000, and it is now proposed to increase it to \$50,000,000. Loans, up to the present time, have amounted in round numbers to \$50,000,000. Out of this \$50,000,000 of loans which have been made, not one dollar has been lost. That seems to show two things: first that the native Egyptians are not so careless and thriftless as was thought before, and second, that the management of the bank itself has been extremely skilful and careful. Out of the entire amount loaned, only small sums have had to be collected under pressure; only one was not paid by the

borrower, and that one was paid by one of the officials who had given credit unwarrantably.

As to the people who invested in the bank, how did they come out? The bank has paid good dividends, 4, 6, $7\frac{1}{2}$ per cent on the common stock, besides laying aside something for surplus, so that at the present time the common stock of the company is selling at about 100 per cent above its face value. The rate of interest, owing to the fact that the loans had to be made in small sums, was first placed at 10 per cent. Afterward, when the system was firmly established—when the new bank was formed—it was found that they could make the rate 9 per cent, and recently the rate has been lowered to 8 per cent.

It is proposed, in the Philippine Islands, to establish a bank along the same lines. The success of Egypt has been most surprising, not only from the banker's point of view, but also in the effect the bank has had in the country itself. The people have learned regular business habits from just treatment in their dealings with the bank.

A loan is not made to an Egyptian to use as he pleases. When he applies for a loan he is asked how he wants to use his money. Does he want to buy seed, farm cattle, or tools? He is requested to give the reason for his loan and then he is compelled to live up to his agreement. If it is found by the bank that he is making a wrong use of the money—if he says he will buy tools and spends the money on a wedding—the bank at once interferes. The loan immediately becomes due, and is collected by legal means. By lending money to the farmers for a certain object, and then compelling them to live up to their agreements, the operations of the bank have been conducted without loss.

These loans are made payable in annual instalments. In order to save the bank from expense, and ultimately to lower the rate of interest, it has been thought desirable for the government tax collectors to do part of the work of collecting these loans and interest. As the collectors visit the small farmer to collect taxes, they present the bill for the interest and the part of the loan which is due. If the borrower fails to pay it, the government does not itself make collection by legal process. When this is necessary, it is done by the bank. That is extremely desirable, because it is the collection

by legal process which would be likely to make the farmers oppose the government.

That is the general plan in Egypt, and that plan will probably be followed out in the main in the Philippines. Some of the conditions are not quite so favorable in the Philippines as they are in Egypt. In the first place, in the Nile Valley the people do not depend upon the rain-fall at all. They are perfectly sure of a crop. Once I was standing at a railway station near Cairo with the American consul-general. I noticed a cloud and said, "It looks as if there were going to be a shower." The consul-general looked at me for a moment and replied, "The sky frequently looks that way. The last shower we had was seventeen years ago last April. Don't be worried." It never rains in Egypt, but there is always plenty of water because the government by its irrigation system so regulates the water supply that they are sure of a crop. That is not true of the Philippines; we must therefore figure on occasional partial failures of crops. Second, the Philippines are not so compact as Egypt. The arable land of Egypt is all along the Nile Valley, and it is comparatively easy to get from one part to another. Again, I think the people of Egypt are somewhat more homogeneous than those of the Philippines. I am inclined to think that the Filipinos are intellectually more able than the Egyptians, but I do not think that they are so easily led, nor that they will be so ready to take the advice of the government as are the Egyptians. I think therefore that the characteristics of the Filipinos would make the conditions not quite so favorable as those in Egypt. Nevertheless, the conditions in the Philippines are good enough, so that there is not only a reasonable prospect of success, but so that, if the bank is handled intelligently, success is practically certain. First there must be an honest, capable administration. If the bank does not send the best men to look into conditions and administer the business, firmly and faithfully, with reference to the feelings and welfare of the people, and intelligently with reference to the conditions under which loans are made, the bank will fail, but if that *is* done the bank will succeed.

A word or two with reference to the provisions of the new law. It provides that loans shall be made preferably to the small farmer. Only a relatively small proportion of the capital, say 25 per cent

presumably, will be put out in large loans to the rich farmers. Of course there are some who need to buy modern American machinery that ought to have large loans, and such loans will probably be made at times, but only on the consent of the minister of finance and justice. The preference is to be given to the small landholder.

Again, in order to induce capital to go into the islands and take up the banking business (because, as you know, capital is shy of going so far from home), the government is prepared to guarantee an interest of 4 per cent on the capital that is actually issued by the bank. The Philippine Commission has power to determine what the amount shall be; but the risk to the Philippine government can never, in any one year, be more than \$200,000 (400,000 pesos), and in the present financial condition of the islands that could be taken care of very easily, should it be necessary; but from the experience in Egypt, it is not likely that any guarantee will be called for at all. Again, there will be careful supervision by the government itself. Presumably we shall allow our tax collectors also to assist in the collection of these loans, unless it comes to a collection by legal process. Then it will be done by the bank officials doubtless, and not by the government.

As yet the capital has not been secured for this bank. Capitalists have not agreed to undertake it, but presumably the capital will be obtained on conditions which will be satisfactory. In my judgment it will be a safe and profitable investment, and a measure of untold value to the islands themselves.

A good deal is said with reference to the action of the United States in not providing for the free admission of Philippine products to the United States, but after all, the question of tariff is not the most important. The greatest single thing, probably, which could be done to improve the conditions in the Philippine Islands has been done in making arrangements for the establishment of this agricultural bank, from both the economic and the political point of view. We want to satisfy the demands of the Filipinos themselves. In addition to that, there is no possibility of conflict between the interests of the United States and those of this agricultural bank in the Philippine Islands; so that there ought to be no opposition whatever to its work.